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SUBJECT: TURKEY: SOUTHEAST'S TEXTILE INDUSTRY CONTINUES TO STRUGGLE AGAINST INTERNATIONAL COMPETITION

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**¶1.** (SBU) Summary: Turkey's textile industry continues to face difficulties in dealing with rapidly growing global competition, particularly from China and India. Textile industry leaders in Kahramanmaraş, Gaziantep and Adana recently told us that the textile industry in Turkey's southeast continues to suffer from foreign competition, despite GOT financial incentives. Many textile plant owners are downsizing or diversifying their investments into non-textile businesses, such as agricultural products and construction materials. Larger textile firms are responding to international pressure by leveraging their assets to adjust their position in the international textile market. Some industry leaders called on the U.S. to include Turkey in textile-participating qualified industrial zones (QIZ). End summary.

**¶2.** (U) Textile industry leaders in Kahramanmaraş, Gaziantep and Adana recently told us that, since WTO quotas were lifted, and despite GOT financial incentives, the textile industry continues to suffer in the face of serious Asian competition, particularly from China and India. From the early 1980s until 2000, the textile industry has grown extensively in Turkey because successive governments provided the sector with continuous financial incentives, hoping to provide increased employment for the rising population. Indeed, the sector has been the "locomotive" of Turkey's exports until recent years. The yarn industry, which particularly has grown between 1994-2000, today has a capacity of 7.5 million spindles and 700,000 rotors, which is much higher than the total capacity of the EU's 25 countries. Capital-intensive investments, such as knitting/weaving and dyeing/printing, followed yarn mills, and have become the largest in the world. However, those investments were made without much feasibility assessment consideration, which caused the country to invest nearly \$75 billion in the sector from 1985 to 2005.

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KAHRAMANMARAS  
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**¶3.** (U) Ranking thirteenth in terms of provincial size in Turkey, Kahramanmaraş has four main industrial sectors; textiles, food, steel kitchen units (pots and pans), and construction materials. Private sector investments, mostly in textiles, made during 1990's contributed significantly to the economic development of

the city.

14. (SBU) Mehmet Balduk, President of Chamber of Commerce and Industry (CCI), and owner of a yarn mill and a weaving mill in Kahramanmaraş told us that his business's profitability was below expectations. The weaving mill founded in 2004 is comparatively new. Its exports increased 250 percent in 2004, and 40 percent in 2005. They expect an increase of around 20% for the year 2006. Kahramanmaraş is one of the cities benefiting from the GOT's regional financial incentives program, which Balduk said increased investment in the textile sector. Balduk called for the U.S. to include Turkey in a textile-participating qualified industrial zone (QIZ), saying Turkey deserved such trade treatment for its contributions to peace in Iraq and assistance in the Israeli-Palestinian conflict.

15. (SBU) Hanefi Oksuz, owner of KIPAS, the largest textile factory in Kahramanmaraş, noted that his company is seeing greater international competitive pressure. However, Oksuz accepts that KIPAS has been influenced by Asian competition, but he is not considering leaving the textile sector because it is KIPAS' main business. KIPAS sells to American companies, such as GAP. Oksuz complained that American and European customers imposed labor requirements/inspections on Turkish firms that they do not impose on their Asian suppliers, which causes a labor cost disadvantage for Turkish exporters.

16. (SBU) Oksuz' discussion of new business ventures revealed that he sees a diminishing future in textiles for his company. He has built a very large greenhouse behind one of his factories and is growing tomatoes organically. If the tomatoes sell well in the domestic market, he plans to export them to EU countries. CCI president Balduk told us that KIPAS is considering moving part, or all, of its textile business to Egypt or North Africa to benefit from the American QIZ's set up there. Oksuz, said that KIPAS would direct its new investment money into a cement factory in southern Kahramanmaraş and asked us to find a buyer in Iraq for his recently mothballed fuel oil-fired electrical

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power plant. He explained that rising oil costs had prompted KIPAS to shift to a coal-fired electrical power plant which imports its coal.

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GAZIANTEP  
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17. (SBU) Gaziantep is one of the nine cities in Turkey's GAP project (Southeast Anatolian Project, an economic development project for the southeast region based on agriculture). The city is the largest and economically most developed in the GAP region. Being the gateway into GAP, the city has provided the foundations for the economic growth of the region. The primary sectors in Gaziantep's economy are textiles and food. Secretary General of Gaziantep Chamber of Industry Kursat Goncu told us that the impact of increased Asian competition on Gaziantep's textile SMEs has been strong, especially on those enterprises lacking significant internal capital. He noted that some of these smaller companies have either gone bankrupt, operate "off the books" to avoid paying taxes, or have moved significant parts of their operations to Syria to garner what they hope to be lower wage costs. The leadership of the Gaziantep-based Konukoglu family-owned SANKO conglomerate, one of Turkey's large industrial groups with a textile base, has called for the government to take steps to relieve currency pressures affecting Turkey's textile exports and to reduce energy costs for the sector through a state supplement. The SANKO family also has called for the U.S. to include Turkey in textile-participating QIZ's.

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ADANA  
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¶ 8. (U) Adana is the 6th largest city of Turkey and the largest of the Mediterranean region, where the industrial development efforts date from the late 1950s, just like with Istanbul, Ankara, and Izmir. Textiles is the dominant sector in Adana's economy, as it is in several other industrialized regions of the country.

¶ 9. (SBU) Tarik Bozbey, a senior executive in several textile companies in the Cukurova region, and chairman of the Mediterranean Exporters Union, told us that he was confident in the overall prospects for the textile sector. He explained that, unlike the EU countries, Turkey has a textile tradition dating back over a thousand years, which, he argues, was Turkey's most important reason for maintaining a textile industry. He added that Turkey will always have an advantage of physical proximity to European customers over its Asian competitors. The difference Turkey can make is to leave production of regular or ordinary textile products to the Far East, while specializing in higher value-added products. According to Bozbey, Turkish textile companies can move to, or open new factories in places like Jordan, Egypt or Morocco, where there are no tariffs for exports to the U.S.

¶ 10. (SBU) Can Piyale, managing director of BOSSA Textiles, the flagship textile arm of the Sabanci group, one of Turkey's largest industrial groups, told us that textiles still comprise an important sector for his group, but increased Asian competition was challenging many Turkish textile companies. He indicated that Sabanci saw its market position as placed quite differently than that of most Turkish textile players, and did not advocate on behalf of the overall sector, such as SANKO representatives do. He said that much of BOSSA's work is finished confection on direct sales contract by major international retailers. He added that BOSSA's business is better so far this year compared to last year, but worse compared to 2004. Piyale said BOSSA was trying to get an appointment with GAP for a franchise agreement in Turkey. Their main export customers are GAP, Liz Claiborne, Marks & Spencer, Nine West and Hugo Boss. BOSSA has offices in the U.S. and the U.K.

11 (SBU) Ahmet Coskun, the owner of a nationwide chain of shops called "Suvari", has been in textile business since the early 1990s. What his father started up as a small business is now on its way to become an international brand. They export to Europe and Middle Eastern countries. They already have some shops in Europe, and are also planning to open in Russia as well.

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#### OUTLOOK FOR TURKEY`S TEXTILE INDUSTRY

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¶ 12. (U) It is certain that Turkey's textile sector has been, and continues to be, influenced by Asian competition. Starting in the late 1990s, conglomerates like Sabanci and Koc, who had foreseen changing economic trends, downsized their textile companies or left the sector altogether. Those who downsized their businesses narrowed their product range in order to specialize in certain branches of textile so that they could compete and outperform their foreign competitors. SMEs, most of which are lacking in internal capital, are struggling to maintain their businesses, trying alternative business models, such as outsourcing, subcontracting, or relocation. According to a local contact who is a member of the Mediterranean Exporter's Union, the number of textile companies going out of business in the Mediterranean and southeastern regions of Turkey is much higher than in the north and west of the country. Among the reasons for this are the lack of qualified labor force, particularly in the southeast; the availability of low-cost raw materials; the physical distance from main ports; and the absence of side industries. On the other hand, the GOT still encourages the textile sector

in the southeast as part of its efforts to develop the region. Most of the factories that the Prime Minister has opened recently are textile businesses. Textiles will continue to be one of the main politically-sensitive sectors in the country going into the 2007 election season.

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